

U.S. COMPANIES IN A DECLINING \$ ENVIRONMENT

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U.S. Strong Dollar Policy:

September 2003 G7 meeting in Dubai

1985 Plaza Accord

Current U.S. Administration

Main Trading Partners

Export to: (Industrialized Nations)

Canada

European Union

Import From: (Developing Nations)

China/SE Asia

Mexico/Central, South America

Daily QCAD= [Line]

1/10/2000 - 11/24/2003 (GMT)

QCAD=, Close(Bid), Line
11/19/2003 1.3051

Price
/USD
1.6

1.6188 all-time high January 2002

20% change in value in less than 2 years

1.2975 November 2003

1.58
1.56
1.54
1.52
1.5
1.48
1.46
1.44
1.42
1.4
1.38
1.36
1.34
1.32
1.3

Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov
2000 2001 2002 2003



Foreign Exchange

Daily QEUR= [Bar]

1/10/2000 - 11/24/2003 (GMT)

QEUR=, Bid, Bar

11/19/2003 1.1967 1.1977 1.1873 1.1885

1.1977 November 2003

45% change in value in 3 years

.8240 all-time low September 2000

Price
USD
1.18
1.16
1.14
1.12
1.1
1.08
1.06
1.04
1.02
1
0.98
0.96
0.94
0.92
0.9
0.88
0.86
0.84
0.82

Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov
2000 2001 2002 2003



Foreign Exchange

Daily QCNY= [Bar]

1/10/2000 - 11/21/2003 (GMT)

Price /USD
8.276
8.272
8.268
8.264
8.26
8.256
8.252
8.248
8.244
8.24
8.236
8.232
8.228
8.224
8.22
8.216
8.212
8.208
8.204
8.2

[Professional]

QCNY=, Bid, Bar
11/18/2003 8.2767 8.2767 8.2767 8.2767

Chinese currency fixed to the USD at 8.28

Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov
2000 2001 2002 2003



Foreign Exchange

Daily QMXN= [Line]

1/11/2000 - 11/25/2003 (GMT)

QMXN=, Close(Bid), Line
11/20/2003 11.185

11.3490 all-time high October 2003

27% change in value in 2 1/2 years

8.9570 May 2001

Price
/USD
11.2
11.1
11
10.9
10.8
10.7
10.6
10.5
10.4
10.3
10.2
10.1
10
9.9
9.8
9.7
9.6
9.5
9.4
9.3
9.2
9.1
9

Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov Jan Mar May Jul Sep Nov
2000 2001 2002 2003



Foreign Exchange

Exporters:

Price of product has declined by 20% when selling into Canada

Price of product has declined by 45% when selling into EU

Importers:

Cost to import from China has remained steady

Cost to import from Mexico has declined by 27%

Cost to import from Canada & EU has risen (see above)

What to do

If you export to Canada, EU...etc..

- Hedge a portion of your exposure to take advantage of historic exchange rates – do not worry about opportunity cost
- Layer in additional hedges as market moves in your favor
- Be prepared to hedge more aggressively if market sentiment shifts against you
- Do not get too comfortable with a declining dollar

What to do

If you import from Canada, EU...etc..

- Depending on your budgeted exchange rates, hedge more aggressively at or better than your break-even
- Look at currency options which allow you to take advantage of moves in your favor but at same time guaranteeing an exchange rate
- Be prepared to reduce your hedging activity if market sentiment moves in your favor
- If you pay in US \$'s, do not be afraid to renegotiate in CAD or EUR's and manage the FX currency risk

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